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THE GEORGE WASHINGTON UNIVERSITY

NAVY GRADUATE COMPTROLLERSHIP PROGRAM

PROGRESS IN NAVY FINANCIAL MANAGEMENT UNDER TITLE IV OF THE NATIONAL SECURITY AMENDMENTS OF 1949

By

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For

Dr. A. Rex Johnson

May 1959

PREFACE

After an extended personal survey of United States Navy operations at sea and ashore during 1955, the publisher of a prominent business magazine stated:

> The price of freedom ... is high, but from the United States Navy the American people are certainly getting their money's worth. It is the best investment we are making today.[1]

In support of this conclusion, Mr. Forbes calls attention to the high caliber of financial management in the Navy stating that "waste and irresponsible spending are certainly not the hallmarks of Navy operation and procurement".[2]

These evaluations are in sharp contrast to the earlier findings of the Hoover Commission which may be summarized as follows:

> Essentially the military attitude ... is unbusinesslike and wasteful. ...This anti-economy and unbusinesslike attitude is of fundamental importance for it permeates the thinking of the entire establishment.[3]

The fact that a period of five years elapsed between the observations which resulted in these contradictory reports sug-

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[1]Malcolm S. Forbes, "Facts and Comment", Forbes (November 15, 1955) p. 10.

[2]Ibid.

[3]Neil MacNeil and Harold W. Metz, The Hoover Report 1953-1955, (New York: The Macmillan Company, 1956) p. 19.

gests that financial administration in the Navy has improved in the interim. It is the purpose of this paper to examine recent changes in Navy financial management in order to determine the basic reasons for the improvement noted by Mr. Forbes.

The most significant change in Navy fiscal administration resulted from enactment of the National Security Act Amendments of 1949.[4] Title IV of the act, incorporating recommendations of the first Hoover Commission, established the function of comptrollership in the military departments thus locally laying the foundation for sound financial management. Although it should be emphasized that the Navy had previously recognized the importance of fiscal matters, the passage of the act marks the beginning of a new era in financial management. The scope of this study will be limited to a survey of the major changes which have occurred in the Navy's fiscal administration during the intervening period.

Changes have resulted not only from the Navy's effort to carry out the provisions of Title IV but also have been brought about by additional legislation, executive order and acceptance of the recommendations of special study committees. This study will include an assessment of progress made and indicate where additional steps must be taken to complete implementation of legislative requirements.

Special appreciation is expressed to Mr. Fred Dessert of the Office of the Comptroller of the Navy, who permitted free access to the Quarterly Reports of Navy Achievement in Implement-

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[4]U. S. Statutes Public Law 216, 81st Congress, 1st Session, 1949(63 Statute 578).

ing Title IV. These reports, submission of which is required by the U. S. Senate Armed Services Preparedness Subcommittee No. 3, provided the author with a detailed, chronological record of progress in financial management.

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CHAPTER I

INTRODUCTION

It is the premise of this thesis that establishment of the comptrollership function has accelerated the pace of improvements in financial management in the Navy. The adoption of the comptrollership concept by the Navy's bureaus and installations has improved fiscal administration at all levels. The examination of this proposition will be the subject of subsequent chapters which will be devoted to the discussion and evaluation of the numerous changes in financial administration in the Navy since 1950.

Legislative And Executive Interest In Financial Management

Innovations stem principally from enactment of Title IV of the National Security Act Amendments of 1949.[5] Legislative authority for changes in administration and procedures has also been included in the Budgeting and Accounting Procedures Act of 1950[6], and Public Law 562, 83rd Congress, 2nd Session, 1954. The former requires executive agencies of the government to install accounting systems which "give not only full disclosure of their financial operations but also the information needed

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[5]U. S. Congress, Public Law 216, 81st Congress, 1st Session 1949.

[6]U. S. Congress, Public Law 784, 81st Congress, 2nd Session 1950.

for effective internal management and for budgeting".[7] The latter provides for the addition of an Assistant Secretary of the Navy for financial management.

The work of several legislative and executive committees has resulted in acceptance of many recommendations for changes in Navy financial management. The most important contribution was made by the Commission on Organization of the Executive Branch of the Government, which was established by Congress in 1947. Popularly known as the Hoover Commission, the group made numerous recommendations, many of which were included in Title IV of the National Security Act Amendments of 1949.[8]

In 1953, Secretary of Defense Wilson established the Advisory Committee on Fiscal Organization and Procedures under the chairmanship of Mr. Charles P. Cooper. The objective of the study as stated by Mr. Wilson in the enabling letter to the committee "is to develop recommendations for an effective, simplified and standardized fiscal and reporting system, as well as an improved organization for all financial matters, in the entire Department of Defense".[9] The committee report suggested detailed improvements be made in the budgeting and accounting procedures used in the

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[7] Arthur Smithies, The Budgetary Process In The United States (New York: McGraw-Hill Book Company, Inc., 1955), p. 89.

[8] See Frederick C. Mosher, Program Budgeting: Theory and Practice (New York: Public Administration Service, 1954), p.37-42 for the story of how the Hoover Commission Defense Task Force recommendations formed the basis of Title IV.

[9] C. E. Wilson Letter dated 18 August, 1953.

Department of Defense and the three services. The recommendations and resulting changes in Navy financial management will be covered in later chapters.

In October 1953, the Secretary of the Navy established a Committee on Organization of the Department of the Navy under Thomas S. Gates, Jr., Chairman. After reviewing the financial management function, the committee recommended the addition of an Assistant Secretary for Financial Management. Congress concurred and passed Public Law 562, 83rd Congress.

The latest in the series of studies of Navy Department organization has just been completed under the direction of Navy Under-Secretary, William B. Franke. Results of the study have not been released as of this writing, but changes in organization for financial management are expected.

Need For Study Of Financial Management

From this brief review of the major Congressional and Executive inquiries, it is apparent that sound financial management is of primary importance to all concerned. It is safe to say that the recent ten year period is comparable to no other with respect to the close study of financial management in the Navy. Indeed, this is true of the entire Department of Defense.

Heightened interest in defense fiscal affairs has been brought about not so much by evidence of poor management in the past, but rather by the need to assure optimum use of the nation's resources. Military expenditures in recent years have required an increasing proportion of the nation's productive wealth. In

1939 military expenditures of 1.1 billion dollars amounted to twelve percent of national expenditures, and in 1948 11 billion dollars represented thirty-three percent.[10] The budget for fiscal 1960 calls for defense expenditures of 41 billion dollars or fifty-three percent of the total President's budget. Defense is America's biggest business and measured by this once, its fastest growing business.

The size of the Navy challenges the imagination; based on total assets - 70 billion dollars - it equals the combined assets of the one hundred largest industrial corporations in the United States. The Navy payroll of 3 billion dollars is eighty-four percent greater than that of U. S. Steel, its capital outlays of 3.5 billion dollars is forty percent greater than that of American Telephone and Telegraph.[11] By any standard, the Navy is big business and improved management of its financial affairs is a subject of great interest to those having administration responsibilities, both inside and outside the Navy.

Status Of Navy Financial Management Organization In 1950

Discussion of changes in financial administration must necessarily be preceeded by a brief summary of status of this phase of management in the Navy. For many years the Navy had recognized the importance of fiscal management and had made substantial progress in the areas of budget formulation and execution, property

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[10] Vosher, op. cit., p. 23.

[11] "The Navy", Forbes (November 15, 1959) p. 14.

accounting and use of revolving funds.

The Budgeting and Accounting Act of 1921 required the Navy Department to designate a budget officer and eventually led to the formation of a central budget unit - the Office of Budget and Reports. The head of this unit was a flag officer directly responsible to the Secretary of the Navy for preparation and execution of the Navy's budget.[12]

Property accounting had been in existence in the Navy for many years and commercial accounting had been introduced to a limited degree at major activities. The Navy had employed the revolving fund concept since 1893 when Congress established the Naval Supply Account Fund for "purchase of ordinary commercial supplies for the Naval service, and to be reimbursed from the proper Naval appropriations whenever the supplies purchased under said fund are issued for use".[13]

After World War II the Navy initiated action to improve all areas of financial management. In 1946, the adoption of a program and performance appropriation structure had been recommended to the Congress. Fiscal functions being performed at different locations and organizational levels were being integrated within one organization. Establishment of working capital funds and stock funds was being studied in the various industrial activities.

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[12] Department of the Navy, Office of the Comptroller, "The Naval Establishment: Its Growth and Necessity for Expansion, 1930-1950", NAVEXOS P-1038, July 1950, p. 92-93.

[13] U. S. Congress, Naval Appropriations Act For Fiscal Year 1894, 27 Statute 723, Approved March 3, 1893.

It was during this period of transition that the Hoover Commission Task Force conducted its investigation which ultimately resulted in the inclusion of Title IV in the Amendments to the National Security Act of 1947. In addition to the requirement for comptroller organizations, the law required vast fiscal improvements, including adoption of performance budgeting, industrial funds, stock funds, cost accounting, property accounting and internal audit. It was the intent of Congress in passing this legislation, virtually without controversy, to promote economy and efficiency in the Department of Defense through incorporation of uniform budgetary and fiscal procedures. To accomplish this purpose, they chose an organizational form implementing the comptrollership concept.

The Comptrollership Function

In Industry

Originally an outgrowth of the accounting and auditing function, the duties and responsibilities of the comptroller in industry have increased in scope and importance concurrent with the growth in size and complexity of business operations.[14] A comparatively recent innovation in American business, the precise location on the organizational chart and the exact role played in the business enterprise is the subject of continuing controversy.[15] Generally speaking, the comptroller in industry - the

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[14]Harry M. DeWitt, Jr., Comptrollership In The Armed Forces (Washington: Institute of Engineering, 1956) p. 1.

[15]Mosher, op. cit., p. 193-202 contains an excellent summary of this debate quoting several significant references.

term "controller" seems to be preferred in business circles - is a staff officer.

> The controller in a business firm is a top advisory official, reporting to the general manager or to the board of directors, or both, with responsibility for interpreting accounting policy in relation to business policy and for advising on the financial consequences of business decisions... He will typically either have charge of the preparation of the firm's budget or will have responsibility for reviewing it.[16]

In The Navy

Congress, acting upon the advice of numerous surveys including the Hoover Commission, wanted to emphasize the role of accounting and fiscal management in defense administration. It prescribed the adoption of this key function in the business scheme of operation in the hope that more businesslike management would result.

The Navy properly views comptrollership as a valuable management tool - "that function of the total management job that deals with financial areas of an organization ... with those analyses, forecasts, records, reports and procedures that give a bearing on the organization's financial status in relation to its mission".[17] Implementation of the function in the Navy has brought about many innovations in fiscal matters. Study of the progress made is the concern of this presentation. First, the changes in organization for financial management will be enumer-

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[16] Jesse Burkhead, Government Budgeting (New York: John Wiley and Sons, Inc. 1956) p. 258-259.

[17] Department of the Navy, Navpers 10720, Financial Management In The Navy (Bureau of Naval Personnel 1956).

ated followed by a broad survey of progress in each of the following areas; budgeting, working capital funds, accounting, progress and statistical reporting, and internal auditing.

CHAPTER II

COMPTROLLER ORGANIZATION IN THE NAVY

Pursuant to Title IV of the amendments to the National Security Act of 1947,[18] the purpose of which is to promote economy and efficiency in the defense establishment, Comptrollership was established on 1 June 1950 by order of the Secretary of the Navy. As viewed by the Congress, the objectives of the comptroller organization are: to place control of fiscal management in the hands of the civilian secretary, to provide the secretary with a fiscal organization consistent with that of the Secretary of Defense, to provide the mechanism for obtaining effectiveness in fiscal control and to provide program, budget and fiscal data in a clear and understandable form.[19]

The first charter of the Comptroller in the Navy, dated 1 June 1950, outlined duties and responsibilities in the areas of budgeting, accounting, progress and statistical reporting, internal audit and for administrative organization structure and managerial procedures relating to such responsibilities.[20] Essentially these activities aid the Comptroller in requesting, allocating and apportioning the funds appropriated by the Congress. The two

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[18] U. S. Statutes, Public Law 216.

[19] U. S. Senate, Hearings Before the Preparedness Subcommittee No. 3 of the Committee on Armed Services, 83rd Congress (Washington G. P. O. November 1953), Appendix, Exhibit B.

[20] Department of the Navy, Secretary of the Navy Letter of 1 June 1950.

fiscal units then subordinate to the Secretary of the Navy, the Office of Budget and Reports and the Office of the Fiscal Director, were combined to form the Office of the Comptroller.

The initial organization of the Office of the Comptroller provided for a Comptroller, a deputy Comptroller, an assistant Comptroller, Director Budget and Reports, and an assistant Comptroller, Accounting, Audit and Finance. The first comptroller was the Assistant Secretary of the Navy for Air, Mr. John F. Floberg. His deputy was Rear Admiral W. S. Norwood who had been Director of the Office of Budget and Reports. The two assistant comptrollers were Rear Admiral S. W. Clexton, formerly Assistant Director of Budget and Reports and Mr. N. P. Cassidy, formerly the Fiscal Director of the Navy. These assignments reflected the intent of Congress toward emphasizing civilian control of fiscal management. Addition of the comptrollership function to the Assistant Secretary for Air, who was also assigned research and development responsibilities, was to prove unduly burdensome and led to recommendations for changes at this level.

Changes In Comptrollership At The Secretarial Level

The first significant change at the secretarial level occurred in early 1953, when the duties of the Comptroller were shifted to the Under Secretary of the Navy. The Under Secretary is the senior civilian assistant to the Secretary of the Navy, and therefore must be prepared at all times to act for the Secretary in all Naval matters. He could not devote full time and attention to his duties and also act as Comptroller. Recognizing the importance

of fiscal administration, the Oates Committee, as noted above, recommended the addition of an Assistant Secretary of the Navy (Financial Management). Congressional authorization quickly followed[21] and the new appointee, Mr. W. S. Franke, was named Assistant Secretary of the Navy (Financial Management) and Comptroller in October 1954.

The most recent change in the designation of the Comptroller occurred in January 1959, when once again the Under Secretary of the Navy was given the responsibility. This change was generated in part by the necessity to reduce the number of assistant secretaries, a requirement of the Department of Defense Reorganization Act of 1958.[22] Factors influencing this decision included the resignation of the incumbent and recommendations of the Franke Committee on reorganization mentioned above.

Objectives Of The Comptroller

The primary tasks to be accomplished in fulfilling the duties and responsibilities assigned to the Comptroller were concerned largely with (1) bringing together and integrating within one organization the various functions being performed at different organization locations throughout the Navy; (2) implementing functions where relatively little progress had been made, such as internal auditing and the establishment of working capital funds at industrial or commercial-type operations; and (3) placing increased emphasis on improved policies and procedures in all areas

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[21] U. S. Statutes, Public Law 3[illegible].

[22] U. S. Statutes, Public Law 597.

of financial management. Before outlining the steps that have been taken during recent years in fulfilling the mission, it is necessary to explain briefly the type of control exerted by specialized functions in the Navy.

The authority of the Comptroller of the Navy is exercised essentially through the medium of technical control. Technical direction is that specialized or professional guidance exercised by an authority of the Naval establishment in technical matters. Directives, policy statements and instructions relating to the specialty, such as financial management, originate in the office of the special function but have broad application to units which may be under other line or management control. Thus, the Navy Comptroller Manual instructions in the various controllers' areas such as disbursing, cost accounting, and appropriation or fund accounting are binding on the entire Navy. Fiscal units under management control of the Bureau of Supplies and Accounts or the Bureau of Aeronautics, for example, must comply with technical directive issued by the Navy Comptroller through established organizational or command lines.[23] Use of technical control has enabled the Navy to decentralize certain operations such as disbursing, budget preparation and execution and detailed accounting. The bureaus and offices are delegated authority for commitment, obligation and expenditure of funds. In the interest of efficiency and economy, however, several fiscal units and functions have been brought under direct management control of the Comptroller.

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[23] J. Sinclair Armstrong, "Comptroller", Armed Forces Management, (November 1957) p. 26.

Changes In The Office Of The Comptroller

The following paragraphs will enumerate the more significant changes that have occurred in organization of the Office of the Comptroller. Detailed discussion of the functions of the various units will be conducted in later chapters, since the present objective is merely to outline the evolution of the present Comptroller organization.

Audit

The first significant change occurred in 1954 when the Cost Inspection Service was transferred from the Bureau of Supplies and Accounts to the Office of the Comptroller. A third Assistant Comptroller was named to assume responsibility for the audit divisions - Contract Audit and Internal Audit. A reorganization of the rapidly growing audit unit occurred in 1956 when Audit Management and Audit Staffing Divisions were created.

Military Pay

The Military Pay Division was established in 1955 under the Assistant Comptroller, Accounting and Finance, to provide for technical control of accounting and disbursing for military pay and allowances.[24] Management control of these activities passed to the Comptroller in November 1956 when the Navy Accounts Disbursing Office, the Navy Officers Accounts Office and the Navy Finance Center were transferred from the Bureau of Supplies and

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[24]U. S. Department of the Navy, Office of the Secretary of the Navy, Instruction 7220.10 of 21 June 1955.

Accounts.[25] This group of offices is now subordinate to the Assistant Comptroller, Accounting and Finance.

Accounting

The transfer order noted above also required movement of the Navy Regional Accounts Office from the Bureau of Supplies and Accounts to the Office of the Comptroller. These offices, used primarily for payment of contractors and dealers, are to be given responsibility for collecting, consolidating and reporting detailed accounting data generated by field activities and operating units afloat. Summary information will be forwarded to control accounts maintained in the Office of the Comptroller.

Summary

Organizationally speaking, the Office of the Comptroller as presently constituted meets all the requirements and objectives of Title IV. Ideally there should be an assistant secretary with the financial management as his sole responsibility, but restrictions on the number of secretaries dictate assignment of multiple duties. While the Navy was working toward integration of fiscal functions at the time when the function of comptrollership was adopted, there seems little doubt that establishment of the Comptroller in the Navy by Title IV has expedited the formation of a sound financial management organizational structure.

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[25]U. S. Department of the Navy, Office of the Secretary of the Navy, Instruction 5430.43 of 6 November 1958.

Comptroller Organization In Field Activities

Policy

It is the policy of the Secretary of the Navy to establish comptroller organizations in all bureaus, offices and major field activities of the Navy Department. In an effort to improve financial management, the Comptroller at all organizational levels should provide the command authority coordinated and integrated staff services in the financial area. Top management, relieved of the burden of detailed data collection, coordination and analysis by the Comptroller, can devote more time to policy formulation, decision and program direction.

Instructions setting forth this policy allow chiefs of bureaus and offices to direct establishment of comptroller organizations at activities under their command or management control. The directive also outlines the functions and staff capacity of the Comptroller and recommends establishment "where the size, scope and complexity of fiscal operations justify the need".[26] The Secretary envisioned maximum contributions by comptrollers to management in production and large service activities, such as shipyards, ordnance plants, supply centers, training centers, bases, Class A air stations and in [illegible] headquarters.

Growth

The first stage of growth of the Navy's Comptroller organization took place at the bureau and office level. Comptroller divisions have been created primarily as staff divisions in twelve

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[26] U. S. Department of Navy, Office of the Secretary of the Navy, Instruction 5400.4 of 18 November 1953.

of the bureaus and offices.[27] Where appropriate, the bureaus have also directed establishment of comptroller organization at field activities. As an example, the chief of the Bureau of Aeronautics issued an instruction in early 1954 which stated the policy of the bureau, established sixteen formal comptroller organizations at major field activities and listed criteria for determining when a formal organization should be activated.[28]

As of this writing, the installation of comptroller organizations has been largely completed with approximately one hundred and ninety field level comptrollers in existence. The installation of new fiscal systems, coupled with certain reorganizations which are contemplated, may require establishment of approximately thirty additional comptroller units.

Comptrollership Training In The Navy

In his testimony before the Flanders Subcommittee investigating implementation of Title IV, Mr. Fritz Schneider, a prominent business executive with extensive defense management association, states that one of the reasons for slow progress in implementing Title IV was lack of "trained and experienced personnel... Thought should be given to acquisition and training of such personnel."[29]

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[27] Navy Graduate Comptrollership Research Report of 1957 Class, Financial Management In The Department Of The Navy, Washington, George Washington University, 1957. Chapter 1 contains detailed discussion of Comptrollers Organization at the bureau level.

[28] U. S. Department of the Navy, Bureau of Aeronautics, Buaer Instruction 5451.11A of 23 April, 1954.

[29] U. S. Senate Hearings before Preparedness Subcommittee No.3, op. cit., p. 46.

The Navy recognized the need to train both officers and civilians in financial management prior to embarking on an extensive program to extend Title IV provisions throughout the Navy. While the Navy policy has been to avoid creation of a specialized comptrollers corps, special officer training programs were started as early as 1952. Civilian indoctrination and education programs of short duration were initiated in 1950.

Officer Training In Financial Management

The only course specifically devoted to Comptrollership training for officers is held at the George Washington University. Inaugurated in 1951, the twelve month course has been completed by approximately one hundred and seventy Navy and Marine Corps officers.

Other courses in management and business administration are included in the following table which also shows the number completing the course as of fiscal year 1955:

Location	Duration	Degree or Certif. Conferred	Naval Officers Trained
Harvard & Stanford-Graduate Schools of Business	2 yrs.	Master Business Administration	335
Univ. Michigan	12 mos.	Master Business Administration	19
Univ. Pittsburg	9 wks.	Certificate	56
Navy P.G. School-Monterey	5 mos.	Certificate	22
Harvard Graduate School of Business	13 wks.	Certificate	93
Rensselaer	11 mos.	Master Science	64
School of Hosp. Administration	10 mos.	Certificate	715

Civilian Training In Financial Management

Comptrollership Indoctrination Program consisting of approximately eighty hours of instruction have been conducted by the Office of the Comptroller since June 1954. Military and civilians from departmental and field activities have held course which is designed to provide a better understanding of comptrollership principles and functions, and to provide background and information concerning utilization of comptroller functions at all levels of management. Over four hundred civilian employees have attended these schools and returned to their original jobs in comptroller activities.

The individual bureaus of the Navy as well as the Office of the Comptroller continue to hold seminar and training discussions at field activities. Varying in length from one to ten days, these sessions are held for the purpose of indoctrination usually in association with impending procedural changes in methods of fiscal administration.

Formal training courses for civilians in the Bureau of Supplies and Accounts have been recently inaugurated at the University of California and Drexel Institute of Technology. Of six weeks duration, the management course includes instruction in comptrollership subjects. As of June 1957, one hundred and twenty have completed the course at the University of California while sixty have completed the course at Drexel.

Summary

A survey of the progress made in organizing the comptroller-

ship function in the Navy concede that there has been undue delay. The task has not been completed in some ten years since the passage of the enabling legislation. Among the reasons why faster progress has not been made are the following:

1. Superimposition of the Comptrollership structure on an organization which must continue full funds operations is a huge task. The job was further complicated when the Korean War interrupted the plan of implementation.
2. Lack of trained and experienced personnel has caused the Navy to proceed cautiously.
3. Resistance by military personnel to changes in the customary methods of operation. Acceptance of the comptrollership function, coupled with an awareness of its value as a management tool, has been lagging.

In order fully to comply with the intent of Title IV, future organizational changes should include assignment of the comptrollership function to an Assistant Secretary who will have no other duties, increased formal training for civilians in comptrollership activities, and completion of the program of activating comptrollers in field installations. In addition, there is the need to improve effectiveness of comptroller organizations at all echelons by achieving a better understanding and acceptance of comptrollership and its importance to the effective performance of the Navy's mission.[30]

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[30] Ibid., p. 174.

CHAPTER III
BUDGET ADMINISTRATION

The budget process in the Navy is the heart of management and control. The annual submission of the budget estimates to the Congress constitutes a request for funds, the granting of which implies approval of the plans and programs for utilization of men, materials and other resources. The Comptroller has responsibilities for both formulation and execution of the Navy's budget. He participates in preparation of the Program Objectives which form the basis for budget estimates. He guides the bureaus and offices as they translate the planned programs into appropriation requests, and reviews financial requirements and justifications. After the funds are voted by the Congress, the Comptroller continuously reviews execution of budget plans and programs. He apportions and allocates funds to the bureaus and offices and makes funding adjustments to the budget plan if required.

Performance Budget

Equal in significance to the controllership provision of Title IV is the concept of the performance budget which it introduced. It was the intention of the Congress, acting upon the recommendation of the Hoover Commission, to require budget estimates stated in terms of "cost of performance of readily identifiable functional programs and activities, with segregation of

operating and capital programs".[31] The importance of this concept to the Congress is reflected by later enactment of the Budgeting and Accounting Procedures Act of 1950,[32] and Public Law 863 which extended the requirement for cost based budgets and budget-account structures to the government as a whole.

Congress also sought budget estimates of the military departments stated in readily comparable terms following a uniform pattern. In addition, it wanted to prevent overdrafts and deficiencies and fix responsibility for utilization of funds in accordance with approved policies.

Implementation of the performance budget structure required a complete revision of the Navy's appropriation titles as well as the fund accounting system of the Department. Some appropriation requests had been based on broad functions, others on object of expenditure and still others, on organizational concepts. The list of appropriations had developed without a consistent approach. As a result, the various bureau accounts did not cover the cost of conducting programs such as fleet operations or medical care. A single program or activity was financed through numerous appropriations with the result that no single bureau or office could exercise complete financial control.[33] Changes in budget formulation and execution were clearly indicated.

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[31] U. S. Statutes, Public Law 216, Title IV, Section 403.

[32] U. S. Statutes, Public Law 784, 81st Congress.

[33] U. S. Department of the Navy, Bureau of Naval Personnel, NavPers 10792, Financial Management In the Navy, P.37.

Progress In Budget Formulation

Appropriation Structure

In fiscal 1947 Congress approved funds under sixty-one different appropriation title for the Navy. (See Appendix A.) The titles do not focus attention on programs but on objects of expenditure such as fuel, printing and travel. There are twenty-one separate appropriations for salaries of civilians and military in the Washington, D. C. area. Congress requested improvement of the budget in order to clarify fiscal responsibility with the result that the number of appropriation titles was slowly reduced to forty-eight by fiscal 1950.

The passage of Title IV and the requirement of a performance budget has brought more improvement. For fiscal 1959, only twenty appropriation titles were required. (See appendix B.) The overall reduction has been accomplished by realignment of appropriations into logical groupings of programs, with separate appropriations for operating and capital programs. Revision of appropriation titles has also required re-designation of accounts to permit accumulation of costs consistent with the budget structure.

Further improvement in this area is required if uniformity and comparability among the three services is to be achieved.

Cost Based Budgets

A true performance budget should focus "attention on the volume of work to be done, accomplishments achieved, and the cost

of services needed".[34] Grouping appropriations and changing classifications is only part of the problem. Other techniques, such as accrual accounting, cost accounting, working capital funds and segregation of capital from operating accounts must be employed. This involves a radical departure from the historical way of accounting in government where emphasis has been placed on accounting in terms of organization and object. "Money is to be provided for activities and functions rather than for purchases and payments."[35]

> In a sense, this amounts to substituting ends for means as the focal points of financial planning and control. For example, performance budgeting might require that funds for basic training be estimated on the basis of the total numbers to be trained and the overall cost of training each man, in contrast to previous practices of assuming the training goal, then adding up the salary, supply, and contractual costs to reach the goal. Congress would thus exert control on the number trained, the quality of training, and the total cost per man, rather than on the number and salaries of positions filled.[36]

Budget estimates, to be compatible with the new concept, must be based on a mechanism for measuring work and costs rather than the stated requirements of the various bureaus and offices. In many instances, historical work measurement data are not available due to the experimental nature of the work being done. In other instances, particularly in the Navy's shore establishment, the

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[34] Catherym Meehler-Hudson, "Performance Budgeting In Government", Advanced Management (November 1953).

[35] Mosher, op. cit., p. 61.

[36] Ibid., p. 61.

utilization of revolving funds has generated cost-based budgets. It is this area - the operation and maintenance of the shore establishment with its industrial and commercial-type activities - that the comptroller can contribute to improvement of the budget formulation process.

Budget Formulation Role Of The Comptroller At The Field Level

To the maximum extent practicable, the Navy budget is based upon an analysis at departmental levels of estimates and cost reports received from operating levels in the field. Formulation of budget estimates by the installation commander requires assistance of his staff member for financial matters - the Comptroller. Starting with higher guidance in the form of Directives which outline future mission and level of operations, the unit commander must develop an operations schedule.[37] From this schedule, the installation department heads develop cost estimates for performance of their specific duties. The Comptroller assembles, reviews, and analyzes the various estimates. During this review the Comptroller should critically evaluate the basis for cost figures and insure that they stem from:

1. A well-planned program of work.
2. A reliable forecast of services and material required.
3. Accurate schedules of financial requirements.
4. Consideration of past and current expenditures.[38]

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[37] Marine Corps Institute, Budget Formulation and Administration Control of Funds (Washington: [illegible], 1[illegible]).

[38] Research Report of 1958 Class Navy Graduate Comptrollership Program, Financial Management In The Shore Establishment (Washington: George Washington University, 1[illegible]), p. 3[illegible].

Recent Navy employment of management tools in the field of work measurement, accrual accounting and cost accounting, have provided the Comptroller with the necessary yardstick for measurement of the accuracy of budget estimates. He can properly justify the request for funds which he submits for his commander's approval prior to forwarding for analysis by higher authority.

Budget Formulation Role Of The Comptroller At Bureau Level

All of the requests originating in the field must be reviewed and integrated into the budget of the bureau exercising fiscal control. The bureau Comptroller must analyze the individual submissions for adherence to guidance relating to planned level of operation and validity of cost estimates. Cost comparisons with similar units and past performance provide a sound basis for evaluation.

In addition, the Comptroller at this level must originate budget estimates for programs such as construction and conversion of ships and aircraft, maintenance and operation of ships and aircraft and procurement and construction. Development of cost-based budgets in these areas is in its infancy. Military and civilian personnel appropriations, which are prepared at this level, are presented on a cost basis.

There is little historical basis for costing in many of the areas encompassed by the above appropriation. Cost forecasting at its best can be a good approximation, at its worst it is so inaccurate as to lose its value as a management tool. Over expenditures and deficiency legislation requests result, a possible

indication of poor judgment or lack of efficiency. The Controller must project past experience, consider cost trends and anticipate levels of effort if he is to estimate costs within acceptable limits.

Summary Of Changes In Budget Formulation Process

Submission of a performance budget has required the Navy to realign internal management responsibilities, revise the appropriation structure and revamp accounting procedures. The following changes have been made:

1. Bureaus and offices control fiscal affairs only of those activities over which they have primary management control, thus paralleling management and fiscal responsibilities.
2. The budget and accounting system has been integrated so that accounts are titled by appropriations. Obligations and expenditures are reported by budget activity thus providing both a basis for budgeting and controlling of expenditures.
3. Programs have become readily identifiable in the appropriation structure. Related budget activities are now grouped by function rather than organizational entity.
4. Capital and operating programs have been segregated so that a single management bureau or office can control directly related appropriations.

For example, the Bureau of Ships administers the capital program, Shipbuilding and Construction, Navy, and the operating program, Ships and Facilities, Navy.

5. Appropriations have been reduced in number and reclassified to implement the performance concept.
6. Field participation in budget formulation has been increased insofar as practicable.
7. A standing schedule for guidance in the development and review of the annual budget has been promulgated. Each step of the procedure is outlined to enable each responsible officer to plan his budget operations in phase with the overall Navy schedule.

Budgeting is a dynamic process involving many variables which are not always controllable by the budget maker. Alteration of the appropriations structure requires changes in accounting procedures, thus inducing changes in reporting which in turn may change budget activity classifications. Refinements in all the elements of budgeting are constantly being made. The Comptroller at each level is the prime mover in generating the innovations and reducing to practice the changes recommended by other sections.

Future improvements in this area will center around a further reduction in the Navy's appropriations titles, particularly in the operations and maintenance and procurement and production classifications. Another anticipated reform will involve the inclusion

of the costs of military personnel in costs of administrative and support programs. The military personnel appropriation will be retained but the costs will be allocated to administrative and support activities by appropriation reimbursements.[39]

Budgetary Execution

Budget execution or budgetary control involves the use of funds after appropriation by the Congress. Laxity in financial administration during and shortly after World War II incurred Congressional criticism of the military and led to legislative curbs. Congress noted that funds were not being used for the purposes intended. They resented the coercive nature of supplemental appropriation requests which were needed ostensibly to meet vital defense needs. Title IV requires that funds be spent in a manner consistent with the budget as prepared and presented to the Congress. The Anti-Deficiency Act[40] and related regulations require each executive department to subdivide funds and to establish limitations on obligations and expenditures. Penalties are imposed if authorized expenditure ceilings are exceeded.

Additional expenditure limitations have been imposed in recent years as the Eisenhower administration has been forced to control Federal spending in order to remain below statutory national debt ceilings. Although obligational and spending authority

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[39] Wilfred J. McNeil, unpublished address before the Federal Government Accountants Association, Washington, D. C., 8 October 1957, p. 7.

[40] 31 USC 665, Section 3679, Revised Statutes as amended by Section 1211 of Public Law 759, 81st Congress.

may exist concurrent with the need, military hardware may not be purchased if the Navy's expenditure limitation will be exceeded. Thus, the present Navy fiscal administrators are faced with both legislative and executive insistence on control of appropriated funds. The degree of control exerted is greater now than ever before and necessitates more stringent control mechanisms, more timely expenditure reporting.

Budgetary Control Procedures

Control of expenditures starts at the Bureau of the Budget which apportions the total amount of the Congressional appropriation and control the rate of obligation of each appropriation. Title IV places responsibility on the Secretary of Defense for prescribing the administrative system of fund control and for approving the amounts and rates of obligations within the amounts apportioned by the Bureau of the Budget. The Secretary of Defense delegates authority to allocate funds to the Secretary of the Navy who, in turn, delegates the authority to the Comptroller of the Navy. The Comptroller makes funds available to each of the bureaus and offices within the Navy Department. The bureau chief, through his Comptroller, makes further allocations within the bureau to program managers, purchasing officers and comptrollers of Navy field activities.

Obligation and expenditure review must be conducted at all levels. This procedure enables the allotment administrator to compare continuously actual obligation and expenditure rates with planned rates. Allotment accounting responsibility starts at the

fiscal office of the activity to which the allotment is issued. For example, the commanding officer of a field activity is charged with the responsibility to remain within expenditure ceilings. The bureau chief can delegate the authority to spend but cannot delegate responsibility to account for the funds allotted to him. He must, therefore, require accountability from lower echelons. The reconciliation and review conducted at the Bureau Comptroller level is also conducted with summary accounts at the Navy Comptroller's level. It is apparent at this point that adequate appropriation accounting machinery must be available at all levels. Accounting, the vital tool in the execution of budgetary plans, must provide:

1. Balances of funds which remain available for obligation and expenditure.
2. Obligation and expenditure data in relation to budget amounts.
3. Costs in terms of operating expenses and costs of acquisition of property particularly in relation to budgets covering respective appropriations.[41]

Budget Execution And The Comptroller

Whether by coincidence or design, the military comptroller came into existence at about the time that the Congress saw fit to include penalties in Anti-Deficiency Legislation. Congress

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[41] McNeil, op. cit., p. 14.

demanded that military departments control expenditures in accordance with appropriations and provided the staff assistance to do the job. At every level the Controller is the key manager in allotment administration. He must supervise allocation of funds and govern the rate of obligation and expenditure in accordance with command policies. The role assumes ever greater significance at a time when expenditure limitations are imposed by the executive branch. The Comptroller must advocate spending as required for fulfillment of the military need and yet remain safely within spending limits. Balancing expenditure programs involving millions of dollars and extending over several years duration requires control procedures and techniques which are just now being devised. A great deal of progress has been made but there is much to be done if expenditures are to be controlled precisely.

CHAPTER IV

WORKING CAPITAL FUNDS

Working capital funds are defined as revolving funds which finance acquisition and replenishment of inventories of common usage standard stock items (stock funds) and provide capital for operation of industrial and commercial activities of the Navy (industrial funds). Stock funds are used for items such as clothing, food, medical supplies, general stores and others. Industrial funds are used for operation of shipyards, printing plants, research and development activities, and other activities in the Navy.

Activities with working capital funds operate on the business-like basis of receiving orders or requisitions and billing the military purchasers on a basis of cost or estimated cost for the products, services or merchandise furnished. Payments by the military purchasers are charged to appropriations granted by the Congress for specific purposes and are re-deposited in the working capital fund.

Installation and operation of a working capital fund is a subject requiring a separate treatise and beyond the scope of this paper. The purpose is to outline the intent of the Congress in prescribing use of working capital funds and to examine the Navy's progress in application of the concept.

Legal Basis For Use Of Working Capital Funds

The use of revolving funds in the Navy is not of recent origin. As noted above, a Navy stock fund was authorized by the Congress as early as 1893. Use of this management technique so impressed the Congress that extension to all military departments was required by Title IV. The objectives of Section 405 of Title IV may be summarized as follows:

1. To provide a means for businesslike management and financing of industrial activities and inventories.
2. To consolidate operating and fiscal responsibilities.
3. To promote common use of facilities and inventories thereby reducing or eliminating overlapping and duplication of activities in the military departments.[42]
4. To facilitate use of performance budgets by charging costs against the project that uses the material, work or service. Unit costs to be determined through use of commercial accounting systems.
5. To provide basis for comparison of operating results of similar service activities, and to a limited extent, between service and similar private business activities.

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[42] Financial Management In The Navy, op. cit., p. 147.

Expanded Usage Of Working Capital Funds

Navy Stock Fund

Originally conceived to finance the purchase and replenishment of ordinary commercial supplies commonly used by the Navy, the Navy Stock Fund has been continually expanded to include a growing list of stores and materials. At the time when Title IV was enacted, the inventory, controlled by the Bureau of Supplies and Accounts, was limited to general stores materials, clothing and small stores, special clothing, ship's store and commissary store stock, subsistence stores and fuel, lubricants and petroleum.

Pursuant to authority granted by Title IV, the Navy Stock Fund inventory has been expanded to include vehicular equipment repair parts, shipboard electrical fittings and fixtures, forms and publications, photographic material, electronic repair parts, submarine repair parts, and shipbuilding materials. The next phase of inventory capitalization is planned to include material aboard all tenders and repair ships pending the outcome of a one year test program involving four selected tender and repair ships.

The principal advantage to be gained as more material is included in the Navy Stock Fund is the consolidation of inventory accounts. The inventory manager is in a position to negotiate more favorable procurement contracts, as well as compile more accurate usage data. The use of the fund also facilitates appropriation and cost accounting and simplifies budget justification as relates to material usage. Not to be overlooked are the economies realized through stock fund requirement that the military purchaser "pay" for materials that may have previously been issued

to him without cost or accountability.

Navy Industrial Fund

The Navy has been vigorously extending its industrial fund program. The systems for industrial funds are developed by a work group under the leadership of the Navy Comptroller with representatives of the particular activity for which working capital is being provided and representatives of the cognizant management bureau. As required by the enabling legislation, the industrial fund systems are reviewed and approved by the Office of the Secretary of Defense.

The following schedule shows progress by fiscal years in the installation of industrial funds:

1950	-	Defense Printing Service, Washington, D. C.
1951	-	None
1952	-	Military Sea Transportation Service, York Ordnance Plant, 3 Printing Plants, Philadelphia Shipyard
1953	-	Forest Park Ordnance Plant, Naval Research Lab, 16 Printing Plants
1954	-	Charleston, Portsmouth, Boston, New York, Norfolk Shipyards; Printing Plant at Guam; Indian Head Powder Factory
1955	-	Puget Sound, Long Beach, Mare Island, Pearl Harbor, San Francisco Shipyards; Naval Gun Factory, Washington, D. C.; Naval Ordnance Plant, Indianapolis
1956	-	Naval Ordnance Plant, Macon; Naval Repair Facility, San Diego; 2 Printing Plants
1957	-	Naval Ordnance Plant, Louisville; Branch Publications and Printing Office, Corpus Christi

1958 - Public Works Center, Norfolk; David Taylor Model Basin; Public Works Transportation Center, Treasure Island; Painting Plant, Indianapolis

1959 - Public Works Center, Pearl Harbor

Further extension of industrial fund financing is contemplated with the conversion of ten Aviation Repair Facilities, eleven Research and Development Activities, four Specialized Ordnance Plants and eleven Ammunition Depots. Steps are already being taken to accomplish this long range plan. Following a two year study and planning period, the Great Lakes Overhaul and Repair Department is scheduled to commence operations under the industrial fund in April, 1959.

There are many advantages accruing from increased use of industrial fund financing. Most of them are derived from the cost accounting and accrual accounting systems which are installed. The financial reports stimulate consciousness of cost on the part of management with a corresponding motivation to cut costs. For example, in a period of reduced activity, management can cut operating expenses without hesitation knowing that expenses can be increased if warranted without regard to annual appropriation.

Inventory control responsibilities are vested in the activity manager with resultant improvement in financial and physical control of production materials. Previously, customer funds were used for purchase of materials. Once procured, unused materials accumulated without record in the production areas. The use of these free, unrecorded materials in the work of subsequent customers distorted material cost for specific jobs. Under the

Industrial Fund system, materials are purchased and accounted for by the fund manager. The customer is charged only for materials used in his work. Awareness of the inventory investment and motivation to reduce waste is inherent in this method of inventory accountability.

CHAPTER V

ACCOUNTING IMPROVEMENTS

The Navy's accounting systems and procedures exist primarily to meet the management needs of Navy military and civilian officials, and secondarily, to fulfill the reporting requirements of the various executive and legislative agencies including the Bureau of the Budget, the General Accounting Office and the Congress. Accounting services to management at all levels may be summarized as follows:

1. Shows full costs of carrying out specific responsibilities or jobs.
2. Supplies basis for estimating cost of proposed programs and activities.
3. Provides means for measuring accomplishments against planned objectives.
4. In conjunction with Navy's organization, accounting indicates accountability and responsibility for funds and property for which the Navy is responsible.
5. Shows status of obligations and expenditures to enable management to stay within the limits established by appropriations of the Congress, apportionments of the Bureau of the Budget, allotments and sub-allotments made by the Navy Comptroller chain.

Historically, the legislative branch has emphasized the safeguarding of public funds in laws affecting appropriations and expenditures.[43] The Navy's system of accounts was necessarily designed to comply with this demand but the Navy's growth in size and diversification of interests during the World War II era intensified the need for more timely and useful financial data. Accounting had not kept pace with the many and varied demands for financial information. Recognizing that remedial action was required not only in the Navy but throughout the Government, the Comptroller General of the United States, the Secretary of the Treasury and the Director of the Bureau of the Budget started the Joint Program for Improving Accounting in the Federal Government. The studies of this group, which began in December 1947, ultimately led to the passage of the Budget and Accounting Procedures Act of 1950.

Legislative Basis For Accounting Improvement

The Budget and Accounting Procedures Act of 1950, required each agency or department head to establish and maintain an adequate accounting system which conforms to the principles, standards and related requirements prescribed by the Comptroller General of the United States. The intention of the Congress is that each agency head maintain an accounting system tailored to its own needs but in consonance with the requirements of the Comptroller General.

In addition to defining the accounting responsibilities of

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[43] Financial Management In The Navy, op. cit., p. 96.

the military comptroller, the Congress included specific accounting measures in Title IV with the objective of providing the management services outlined above. The following results were expected under Title IV:

1. Integration of account classifications, fiscal accounting, cost accounting, and property and inventory accounting into a single and uniform system.
2. More meaningful budgets and accounting reports for use in planning and management at every level.
3. Greater efficiency with reduced costs through the use of adequate accounting tools.
4. Creation of a greater sense of responsibility and accountability on the part of each and every echelon.
5. Preservation and strengthening of Congressional and Executive control over expenditures.[44]

Other recent enactments and instructions[45] which have generated procedural accounting changes in the Navy include Section 1211[46] which pertains to the control of funds, and Public

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[44] Ibid., p. 92.

[45] As contained in Office of Comptroller General of the United States, Statement Of Accounting Principles And Standards For Guidance Of Executive Agencies In The Federal Government, Washington, D. C., GPO, 26 November, 1952.

[46] Section 1211 of General Appropriation Act, 81st Congress, 2nd Session dated 6 September, 1950 amends Section 3679 of the Revised Statutes (31 USC 665).

Law 863[47] which requires submission of cost based budgets. Many additional changes in accounting machinery are to be accelerated in fulfilling the requirements contained in these and other laws now being considered by the Congress. The effect of these innovations when combined with the broad scope increased use of working capital funds and reducing of appropriation bills is such that a completely new accounting system is being evolved. A survey of progress in accounting such as this must be limited to the more significant changes in the areas of accrual and cost accounting appropriation or fund accounting and plant property accounting.

Cost Accounting

The primary purpose of cost accounting is the accumulation of actual cost related to the work performed, service rendered and/or materials used. Costs generated by this means are the basis for performance budgeting and provide management with the basis for financial control. Complete cost figures, when properly presented and interpreted, become an index of the effectiveness of management and suggest ways of reducing costs.[48]

A complete cost accounting system has been installed in the Navy in recent years with basic instructions contained in the Navy Comptroller Manual.[49] Cost accounting has been performed primarily through the use of expenditure accounts. The wide spread adoption

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[47] Public Law 863, 84th Congress, 2nd Session dated 1 August 1956.

[48] Financial Management In The Navy, op. cit., p. 134.

[49] U. S. Department of the Navy, Office of the Comptroller, Navy Comptroller Manual, Volumes 1 through 5.

of the industrial fund concept has required constant refinement of the Navy's cost accounting system. Both actual cost and standard cost methods have been adopted in the commercial and industrial activities. Overhead costs with the exception of depreciation and military pay are included in the cost accumulating records. For statistical purposes, as opposed to appropriation uses, military pay is distributed on a performance basis.

Accrual Accounting

Modification of the accounting system to establish accrued expenditure accounting at all levels in the Navy was scheduled for implementation 1 July 1959. Instructions have been distributed and intensive personnel indoctrination and training has been started. The most significant result of this program will be the establishment of proper records for accrual reporting and reconciliation of cash disbursement at both the field and bureau level. At present the Navy is on a partial accrual basis and there is some familiarity with the accounting mechanics utilized. The planned change, however, is of such magnitude, requiring a major revision of procedures as well as hiring of additional personnel, that installation of accrual accounting has been delayed by the Navy Comptroller.

Appropriation Accounting

Sound financial management and control requires accumulation of data consistent with budgeted or planned expenditures. The commander at every level must know the status of the fund or allotment for which he is responsible. Expenditure and obligation

figures must be accumulated according to the budget titles - appropriations, activities, sub-activities or programs. As noted in Chapter III, one of the continuing changes under the Navy Comptroller has been the revision of appropriation titles. Every modification of appropriation titles of necessity must be paralleled by modification of the Navy's chart of accounts. The latest revision, to be effective 1 July 1959, is generated by the adoption of one Navy-wide operation and maintenance appropriation.

The Navy-wide appropriation or fund accounting system was established on 1 July 1957, by bureaus and offices of the department in accordance with instructions issued by the Office of the Comptroller. This system includes double-entry bookkeeping, single allotment funding, together with recording and reporting changes. It is designed to accomplish the following:

1. Emphasize fund administration consistent with budgeting.
2. Provide timely accounting information for management review.
3. Meet legislative requirements.
4. Provide controls over commitments and obligations incurred and outstanding at the lowest level of accountability.

Plant Property Accounting

The fixed assets of the Navy are accounted for by the plant property accounting system. Inventory of real property is divided into three classes; land, building and improvement, and equipment.

The plant property accounting system provides each echelon of management with plant property data of a quantitative and monetary nature. The Navy has maintained such an inventory control for many years, far in advance of the passage of Title IV provisions on this subject. The records consist of a separate card for each plant property item owned, a reconciliation between dollar amounts reported on these cards and expenditures made for plant accounts, and a centralized reporting system to facilitate bureau control.

CHAPTER VI

PROGRESS AND STATISTICAL REPORTING

The Navy's financial plan is put into operation by the various bureaus and offices and their decentralized units throughout the Navy Department. For proper control of the operations within the budget framework, management must know specifically the status of plans. Elaborate accounting systems have been devised and installed for the purpose of accumulating data for management use. The vital link is the report which informs management of periodic progress.

The increased tempo of war-time activity revealed the need for some system to collect and report factual statistical data. The decision makers required current knowledge of program progress and on 7 August 1940, the Organization For Providing Statistical Data And Information was formed.[50] This unit was the forerunner of the present Progress Reports And Statistics Division in the Office of the Comptroller of the Navy.

Progress and statistical reporting was one of the functions assigned to the Comptroller by Title IV as evidence of the intent of Congress to provide means for measuring and evaluating progress and to provide reliable program data to aid management.[51] It

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[50] Financial Management In The Navy, op. cit., p. 157.

[51] Hearings before the Senate Preparedness Sub-committee No. 3, op. cit., Appendix B.

should be emphasized that Title IV placed upon the Comptroller the responsibility for establishing principles, policies and procedures for reporting. Although reporting systems of the bureaus and offices provide most of the statistics which serve as a basis for analysis, the focal point for statistical matters was to be the Office of the Comptroller. Thus, the Comptroller has technical control over both the accounting function and the reporting function; he can design accounting systems which facilitate timely, accurate, meaningful reporting.

Comptroller Action To Improve Reporting

Continuous efforts have been made to improve progress and statistical reporting at all levels. As a first step, standard statistical terminology and definitions were developed. To ensure consistency of data, coordination of the bureaus and offices was required for release of statistics. Publications were developed for presentation of basic program information as to the status and trends in funding as related to approved budget plans. Every bureau and office, and every industrial and stock fund publishes periodic reports which summarize operations and show performance as measured by the annual financial plan.

An example of a summary report issued by the Comptroller is the "Report To Top Management". This monthly report outlines pertinent program performance in matters of finance, military personnel, shipbuilding, aircraft procurement, missile procurement, and other programs in which top management has shown interest and concern. In combination with the more detailed reports forwarded

by the bureaus and forces afloat, this report enables top Navy officials to ascertain the status of accomplishment of established program objectives and to take prompt action where indicated.

The budget summary tables issued by the Comptroller are examples of vital statistical reports for top management. These tables show financial data for three fiscal years (prior, current and planned) by appropriation titles, and budget activities, thus providing a year by year comparison for use in justification of the budget before Congress. Gathering of data for these tables has been simplified in recent years by the renovation of the appropriation structure and improved accounting methods.

After Congressional action on the President's Budget, the Comptroller publishes the Navy Budget Digest, a pocket-sized summary of the approved financial plan. The Budget Digest serves as a reference document for Navy Department personnel, showing the itemized budget breakdown of funds available for the coming year. Each activity can examine not only its specific allocation, but also its relationship to the Navy's program as a whole. Actual performance can be compared more readily with the budget in this abbreviated format.

Expenditure Limitations and Reporting

During the fiscal year 1957, the appearance of a new financial restriction put a heavy strain on the Navy's financial reporting system. The rise in governmental expenditures coupled with reduced federal income as a result of the 1957 recession brought an executive order to limit cash disbursements as the federal debt ceiling

was approached. Expenditure limitations for the fiscal year were imposed on Navy budget activities.

Required to exercise much closer control of expenditures at all levels, Navy financial administrators needed more timely financial data. Reports from operating units, field activities, contractors, procurement officers and others must be summarized and forwarded quickly to allotment managers. The allotment manager must not exceed his spending limitation, but the Navy's readiness and strength depends upon his spending all that is allowed within the given time period.

The reporting system, which includes the accounting system generating the required data, was proved inadequate to allow precise control of expenditures. To solve the problem of the reporting lag, the Navy has increased its data mechanization program. Greater speed and accuracy are being attained from the units now installed, but there is much to be done in this regard.

CHAPTER VII

INTERNAL AUDITING

Prior to enactment of Title IV, the audit program in the Navy was limited to inspection of costs incurred under contracts with industrial suppliers. This service was performed by the Cost Inspection Service. Audits of other Navy operations and activities were within the jurisdiction of the General Accounting Office. Passage of Title IV required that internal audits be conducted as a responsibility of the Navy Comptroller. Authority for internal auditing is confirmed by the Budget and Accounting Procedures Act of 1950.

The internal audit program, however, does not exempt the Navy from comprehensive audits by the General Accounting Office. The laws still require audits by the General Accounting Office pursuant to its responsibility to settle accounts. As a practical matter, the number of audits conducted by the General Accounting Office has decreased in recent years as the Comptroller General becomes satisfied that the Navy's internal audit program is effective. This is evidence of important progress under the Assistant Comptroller, Audits.

As noted in Chapter II, the first significant change in the Comptroller organization occurred in 1954, with the designation of an Assistant Comptroller, Audit, and the establishment of the Internal Audit and Contract Audit Divisions. By including the

internal audit function as a part of the Comptroller duties in Title IV, Congress intended to provide:

1. Independent internal audits and appraisals of the financial and business operations of the activities.
2. Unbiased determinations regarding adherence to appropriation provisions and legal requirements.
3. Uniform application of contract cost interpretations among the three services.
4. Objective appraisal of the effectiveness of systems, procedures and regulations issued in the field of fiscal management.[52]

The Contract Audit Division took over the duties of the Cost Inspection Service while the Internal Audit Division examines the following areas: budget administration, allotment and project administration, appropriation accounting, financial aspects of procurement, plant property accounting, stores accounting, cost accounting, timekeeping, civilian payrolls, military pay records and disbursing.

Broadly speaking, the internal auditor investigates the use of resources, men, money, and materials, in business rather than tactical operations in the Navy. He reviews the operating procedures, books, records, and reports at each installation and activity. He checks to insure existence of internal control for safeguarding the Navy's assets and he makes recommendations for

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[52]Hearings before Senate Armed Forces Preparedness Subcommittee No. 3, op. cit., Appendix B.

improvement to management.

Growth Of The Internal Audit Function

Extension of internal audit activities throughout the Navy has been gradual due primarily to shortage of trained personnel, both military and civilian, for employment in an audit role. It has also been the policy of the Comptroller of the Navy to parallel the internal audit activity with installation of an internal review program. Internal review, a supplementary program, is designed to insure continuous personal attention to fiscal operations by all levels of management. This function may assume some of the characteristics of internal auditing but it is not equivalent to the independent appraisal audit performed by the Comptroller of the Navy. In essence, the internal audit review program allows the bureau and office level of management to check their operations before the Comptroller of the Navy sends out internal auditors. The dynamic evolution of financial management in the Navy, with continuous changes in budgetary and accounting procedures, forces reliance on the internal review function. The bureau or office must have an internal review staff to check accuracy of accounting data, operational efficiency and adherence to policies and procedures handed down from higher authority.

The internal audit staff is organized into area audit offices and approximately twenty-eight residence audit units. The area audit office integrates the contract and activity audit programs. Mobile audit teams investigate activities within the jurisdiction of area offices located at Boston, New York, Philadelphia,

Washington, Norfolk, Chicago, San Francisco, Los Angeles, San Diego, London, England and Yokosuka, Japan. The resident audit units provide continuous audits in major bureaus and field installations including for example; the Military Sea Transport Service, the Naval Gun Factory and major naval stations. Expansion of the resident audit offices will continue in the future as additional activities are subjected to continuous auditing. Ultimately there will be fifty resident audit offices.

Audit Reports

The primary purpose of an internal audit report is to make recommendations to the commanding officer of the activity under investigation. After completion of the audit, a rough draft report is reviewed with the unit commander who may add a rebuttal if he desires. The rough draft is reviewed by the area audit office before smooth copies are forwarded to the commander of the unit, the cognizant management bureau and the Navy Comptroller's Office. Implementation of the recommendations following an audit remains the responsibility of the installation commander and the management bureau, who must advise the Comptroller of planned corrective action.

Summary

Centralization of audit responsibility in the Navy has brought about major changes in the organization of the Office of the Comptroller. Growth of the audit functions with corresponding increase in audit staffs has created the need for two service divisions under the Assitant Comptroller, Audit - the Audit Management and

Audit Staffing Divisions. These divisions, non-technical in nature, are charged with personnel recruiting and training, and supervision of the field audit organization.

Despite budgetary limitations to growth imposed by Congress, the audit staff continues to expand at a rapid rate.

Acceptance of the internal audit and internal review programs by all elements of the Navy is indicated by adoption of many thousands of recommendations included in audit reports. The full value of audits cannot be measured in terms of dollars saved as a result of increased efficiency and economy. The mere fact that audits are conducted at periodic intervals serves to eliminate wasteful, illegal, and inefficient practices. It is noted, however, that measurable savings are more than sufficient to pay the cost of the program.[53]

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[53] J. S. Hackley, Captain U. S. Navy, Head, Internal Audit Division, Office of the Comptroller; unpublished address 20 March 1959 before Navy Comptroller Postgraduate Class.

CHAPTER VIII

THE YEARS OF COMPTROLLERSHIP

Despite the magnitude of the task and the disrupting influence of the Korean War, the Navy has virtually revamped the entire fiscal management of the Department within the period following establishment of the Office of the Comptroller in June 1950. Starting with a small staff and a charter including many functions and responsibilities, the Comptroller has gradually acquired from other management control, or has initiated the establishment of the several organization entities needed to fulfill his mission.

Most important to the strength of the Navy has been the increasing stress placed upon sound financial management. Under the Comptroller, there has been an expansion of the comptroller organizations at the bureau and office level and in the field. Training and instructional programs have reflected the need for more proficiency in fiscal management and promoted an awareness of the need to develop improved management techniques.

The accounting system now employed is a completely renovated one. Adopted in conjunction with installation of industrial and stock funds, accounting is a far more useful financial tool than before. Improvement of budget formulation and execution procedures has advanced only to the degree permitted by improved appropriation accounting.

The vital link connecting the related phases of financial

management is communication in the form of progress and statistical reports. Facts must be summarized and interpreted properly; they must be pertinent and timely to be of value to management.

This study of the changes in financial management over the last decade has highlighted the interlocking relationships of the five basic elements of comptrollership; budgeting, accounting, progress and statistical reporting, auditing and the administrative organizational structure. The fact of their interdependence has required the centralization of fiscal functions within the Navy at the expense of the parochial interests at the bureau and office level. Title IV of Public Law 216 makes the departmental comptroller the "focus of leadership in the whole field of fiscal management".[54]

Although the services already had the legal authority to establish a centralized fiscal management system, the Congress in passing the law expressed the intention that the military fiscal systems should parallel business fiscal systems as closely as possible. The importance of the comptroller in achieving this integration of functions is best stated by Mosher as follows:

> The comptrollers represent and even epitomize several related basic motifs in the ethos of military management since the war: the rise to eminence of the fiscal and financial factors, functions, and organizations; the struggle of the principles and techniques of scientific management with those of traditional military and Federal management; the emulation of, and growing dependency upon, business and business practices; the establishment of the phrase

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[54]Mosher, Program Budgeting, op. cit., p. 216.

> "economy and efficiency" as a commandment, not merely a slogan; and, in a still confused way, the search for a formula (or perhaps merely a wedge) for more effective civilian control of the military.[55]

The most significant question in evaluating ten years of comptrollership is unanswerable in quantitative terms. That is the question implicit in the sub-title of Public Law 216; "Promotion of Economy and Efficiency Through Establishment of Uniform Budgetary and Fiscal Procedures and Organizations". Has implementation of the act increased economy and efficiency in the Navy? During the legislative hearings prior to passage, exorbitant claims were made as to the dollar savings that would result. If the political and technological environment had not changed in the interim, perhaps there would be some basis for a dollar comparison. But budgetary outlays have increased enormously and we must dismiss evaluation of increased efficiency and economy in concrete terms. It is possible to conclude without fear of successful contradiction that;

1. Accounting in the Navy is more responsive to the requirements of management.
2. Budgeting is now more closely related to military programs.
3. Utilization of working capital funds facilitates alignment of fiscal and operating responsibilities.
4. Progress and statistical reporting is constantly being refined to be of increased value to management.

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[55] Ibid., p. 191-192.

5. Internal auditing and review programs have had positive measurable results in savings of money and materials.

APPENDIX A

Naval Appropriation Act 1947
(Appropriation Titles)

An act making appropriations for the Navy Department and the Naval Service for the fiscal year ending June 30, 1947, and for other purposes (60 Statute 481-495).

Office of the Secretary
- Misc. Expenses, Navy
- Contingencies of the Navy
- Research, Navy
- Operation and Conservation of Naval Petroleum Reserves
- Exploration of Naval Petroleum Reserve No. 4
- Ocean and Lake Surveys, Navy

Bureau of Naval Personnel
- Naval War College
- Naval Training Stations:
  - San Diego, California
  - Newport, Rhode Island
  - Great Lakes, Illinois
  - Port Deposit, Maryland
- Fleet Training, Navy
- Instruction, Navy
- Libraries, Navy
- Welfare and Recreation, Navy
- Naval Reserve Officers Training Corps
- Misc. Expenses, Bureau of Naval Personnel
- Naval Reserve
- Pay, Naval Academy
- Maintenance, Naval Academy
- Naval Home, Philadelphia, Pennsylvania

Bureau of Ships
- Maintenance, Bureau of Ships

Bureau of Ordnance
- Ordnance and Ordnance Stores, Navy

Bureau of Supplies and Accounts
- Pay and Subsistence of Naval Personnel
- Transportation and Recruiting of Naval Personnel
- Maintenance, Bureau of Supplies and Accounts
- Transportation of Things
- Fuel, Navy

Bureau of Medicine and Surgery
    Medical Department, Navy

Bureau of Yards and Docks
    Maintenance, Bureau of Yards and Docks
    Public Works, Bureau of Yards and Docks

Bureau of Aeronautics
    Aviation, Navy

Marine Corps
    Pay, Marine Corps
    Pay of Civil Force, Office of Commandant of Marine Corps and Director of Personnel, Marine Corps
    Pay of Civil Force, Office of Pay Master General of Marine Corps; Supply Department, Marine Corps
    Pay of Civil Force, Office of the Quartermaster General of the Marine Corps; Supply Department, Marine Corps.
    General Expenses, Marine Corps

Increase and Replacement of Naval Vessels
    Construction and Machinery
    Armor, Armament, and Ammunition

Navy Department Salaries
    Office of Secretary of the Navy
    General Board
    Naval Examining and Retiring Boards
    Office of Naval Records and Library
    Office of Judge Advocate General, Navy
    Office of Chief of Naval Operations
    Board of Inspection and Survey
    Office of Director of Naval Communications
    Office of Naval Intelligence
    Bureau of Naval Personnel
    Hydrographic Office
    Naval Observatory
    Bureau of Ships
    Bureau of Ordnance
    Bureau of Supplies and Accounts
    Bureau of Medicine and Surgery
    Bureau of Yards and Docks
    Bureau of Aeronautics

Contingent Expenses
    Contingent Expense, Navy Department
    Printing and Binding, Navy Department
    Contingent and Misc. Expenses, Hydrographic Office
    Contingent and Misc. Expenses, Naval Observatory

APPENDIX B

Appropriation Titles, 1958

85th Congress, HR 12738, August 22, 1958 - an act making appropriations for the Department of Defense for the fiscal year ending June 30, 1959, and for other purposes (Public Law 85-724).

Department of the Navy
- Military Personnel, Navy
- Reserve Personnel, Navy
- Navy Personnel, General Expenses
- Military Personnel, Marine Corps
- Reserve Personnel, Marine Corps
- Marine Corps Procurement
- Marine Corps Troops and Facilities
- Aircraft and Related Procurement
- Aircraft and Facilities
- Shipbuilding and Conversion
- Ships and Facilities
- Procurement of Ordnance and Ammunition
- Ordnance and Facilities
- Medical Care
- Civil Engineering
- Research and Development
- Servicewide Supply and Finance
- Servicewide Operations
- Naval Petroleum Reserves

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